

# PERAC AUDIT REPORT



## Waltham Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2003 / PERAC 03: 10-090-29



## TABLE OF CONTENTS

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations .....	2
Statement Of Ledger Assets And Liabilities .....	3
Statement Of Changes In Fund Balances .....	4
Statement Of Income .....	5
Statement Of Disbursements.....	6
Investment Income .....	7
Statement Of Allocation Of Investments Owned .....	8
Supplementary Investment Regulations .....	9
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations .....	14
Note 4 - Administration Of The System .....	17
Note 5 - Actuarial Valuation And Assumptions .....	18
Note 6 - Membership Exhibit.....	19

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

HENRY G. BRAUER | KENNETH J. DONNELLY | ERIC A. KRISS | JAMES M. MACHADO | DONALD R. MARQUIS

JOSEPH E. CONNARTON, *Executive Director*

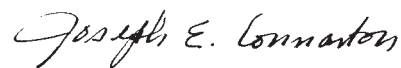
August 25, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Waltham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2001 to December 31, 2003. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## Waltham Retirement System

### EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Additional 2% Contributions

The City of Waltham is assuming 52.143 pay periods per year when calculating the additional 2% contributions. As a result, the payroll system is using \$575.34 instead of the standard \$576.92 to determine the weekly contributions. However, there are actually 53 pay periods per year, and the \$575.34 is being fully applied to all 53 payments. Therefore, the additional 2% is being taken on all earnings in excess of \$30,493.02 instead of \$30,000.

Recommendation:

The city payroll system must be modified to insure the additional 2% contributions are being taken on all earnings in excess of \$30,000.

**Board Response:**

As the finding indicates, Waltham uses a 52.143 pay period and the (Munis) software package calculates this factor. We have corrected one of the two areas where this occurs. The second portion will be worked on by a coalition of the Auditor's Dept., MIS Dept., Munis and the Retirement Department, of course.

The Waltham Retirement Board has taken the necessary steps that will correct this matter and result in the additional 2% contribution being withheld from the member.

**Final Determination**

***PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

# Waltham Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
<b>ASSETS</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash	\$2,653,932	\$4,073,427	\$4,585,135
Short Term Investments	99,875	2,846,898	0
Fixed Income Securities (at book value)	27,937,708	29,507,241	33,612,297
Equities	35,832,100	28,666,019	47,337,854
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	20,775,470	8,357,774	0
Pooled International Equity Funds	14,103,193	9,335,307	12,332,762
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	7,015,050	6,212,371	0
Pooled International Fixed Income Funds	5,650,064	6,346,504	5,475,643
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	4,831,643	4,169,998	3,380,262
Pooled Real Estate Funds	3,163,343	3,824,208	4,984,458
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	247,036	383,007	471,840
Accounts Receivable	206,978	300,890	5,951,846
Accounts Payable	(316,282)	(1,230,223)	(2,591,218)
<b>TOTAL</b>	<b><u>\$122,200,110</u></b>	<b><u>\$102,793,421</u></b>	<b><u>\$115,540,880</u></b>
<b>FUND BALANCES</b>			
Annuity Savings Fund	\$34,079,289	\$31,633,025	\$33,304,488
Annuity Reserve Fund	14,830,800	14,871,112	10,593,680
Pension Fund	5,024,362	9,206,102	11,100,389
Military Service Fund	7,736	7,660	7,554
Expense Fund	0	0	0
Pension Reserve Fund	68,257,923	47,075,522	60,534,769
<b>TOTAL</b>	<b><u>\$122,200,110</u></b>	<b><u>\$102,793,421</u></b>	<b><u>\$115,540,880</u></b>

# Waltham Retirement System

## STATEMENT OF CHANGES IN FUND BALANCES

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2001)</b>	\$31,295,625	\$10,425,712	\$14,587,326	\$7,413	\$0	\$67,681,778	<b>\$123,997,853</b>
Receipts	3,819,212	313,205	8,590,260	141	1,139,966	(7,121,550)	<b>6,741,233</b>
Interfund Transfers	(1,258,077)	1,283,535	0	0	0	(25,458)	<b>(0)</b>
Disbursements	<u>(552,272)</u>	<u>(1,428,772)</u>	<u>(12,077,197)</u>	<u>0</u>	<u>(1,197,941)</u>	<u>0</u>	<b><u>(15,256,181)</u></b>
<b>Ending Balance (2001)</b>	<b>33,304,488</b>	<b>10,593,680</b>	<b>11,100,389</b>	<b>7,554</b>	<b>(57,975)</b>	<b>60,534,769</b>	<b>115,482,905</b>
Receipts	4,004,909	333,613	11,308,684	106	1,041,161	(13,458,649)	<b>3,229,824</b>
Interfund Transfers	(5,453,392)	5,454,070	0	0	0	(598)	<b>79</b>
Disbursements	<u>(222,951)</u>	<u>(1,510,251)</u>	<u>(13,202,971)</u>	<u>0</u>	<u>(1,041,161)</u>	<u>0</u>	<b><u>(15,977,334)</u></b>
<b>Ending Balance (2002)</b>	<b>31,633,055</b>	<b>14,871,112</b>	<b>9,206,102</b>	<b>7,660</b>	<b>(57,975)</b>	<b>47,075,522</b>	<b>102,735,475</b>
Receipts	3,931,036	450,174	11,249,062	77	887,862	21,146,346	<b>37,664,556</b>
Interfund Transfers	(1,410,997)	1,376,792	(1,849)	0	0	36,055	<b>0</b>
Disbursements	<u>(73,774)</u>	<u>(1,867,278)</u>	<u>(15,428,953)</u>	<u>0</u>	<u>(887,862)</u>	<u>0</u>	<b><u>(18,257,867)</u></b>
<b>Ending Balance (2003)</b>	<b><u>\$34,079,319</u></b>	<b><u>\$14,830,800</u></b>	<b><u>\$5,024,362</u></b>	<b><u>\$7,736</u></b>	<b><u>(\$57,975)</u></b>	<b><u>\$68,257,923</u></b>	<b><u>\$122,142,165</u></b>

# Waltham Retirement System

## STATEMENT OF INCOME

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>			
Members Deductions	\$3,406,500	\$3,362,859	\$3,163,075
Transfers from other Systems	137,668	46,386	11,669
Member Make Up Payments and Redeposits	80,912	148,440	66,210
Investment Income Credited to Member Accounts	<u>305,956</u>	<u>447,224</u>	<u>578,258</u>
<b>Sub Total</b>	<b><u>3,931,036</u></b>	<b><u>4,004,909</u></b>	<b><u>3,819,212</u></b>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited Annuity Reserve Fund	<u>450,174</u>	<u>333,613</u>	<u>313,205</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	123,154	111,797	111,260
Received from Commonwealth for COLA and Survivor Benefits	1,541,908	1,519,225	0
Pension Fund Appropriation	<u>9,584,000</u>	<u>9,677,663</u>	<u>8,479,000</u>
<b>Sub Total</b>	<b><u>11,249,062</u></b>	<b><u>11,308,684</u></b>	<b><u>8,590,260</u></b>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>77</u>	<u>106</u>	<u>141</u>
<b>Sub Total</b>	<b><u>77</u></b>	<b><u>106</u></b>	<b><u>141</u></b>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>887,862</u>	<u>1,041,161</u>	<u>1,139,966</u>
<b>Sub Total</b>	<b><u>887,862</u></b>	<b><u>1,041,161</u></b>	<b><u>1,139,966</u></b>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	53,067	0	64,618
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	6,018	2,184	2,925
Excess Investment Income	<u>21,087,261</u>	<u>(13,460,833)</u>	<u>(7,189,094)</u>
<b>Sub Total</b>	<b><u>21,146,346</u></b>	<b><u>(13,458,649)</u></b>	<b><u>(7,121,550)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$37,664,556</u></b>	<b><u>\$3,229,824</u></b>	<b><u>\$6,741,233</u></b>

# Waltham Retirement System

## STATEMENT OF DISBURSEMENTS

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$59,706	\$176,049	\$239,058
Transfers to other Systems	<u>14,067</u>	<u>46,902</u>	<u>313,214</u>
<b>Sub Total</b>	<b><u>73,774</u></b>	<b><u>222,951</u></b>	<b><u>552,272</u></b>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	1,815,090	1,466,226	1,382,515
Option B Refunds	<u>52,188</u>	<u>44,025</u>	<u>46,257</u>
<b>Sub Total</b>	<b><u>1,867,278</u></b>	<b><u>1,510,251</u></b>	<b><u>1,428,772</u></b>
<b>Pension Fund:</b>			
Pensions Paid			
Regular Pension Payments	10,124,685	7,915,345	7,127,378
Survivorship Payments	511,169	490,082	455,714
Ordinary Disability Payments	167,411	159,335	112,449
Accidental Disability Payments	2,684,642	2,631,974	2,353,571
Accidental Death Payments	985,840	1,003,672	863,769
Section 101 Benefits	1,652	118,736	124,383
3 (8) (c) Reimbursements to Other Systems	239,492	93,623	216,607
State Reimbursable COLA's Paid	714,062	790,205	823,325
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>15,428,953</u></b>	<b><u>13,202,971</u></b>	<b><u>12,077,197</u></b>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who			
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,000	15,000	15,264
Salaries	145,646	140,583	132,758
Legal Expenses	39,382	19,533	26,041
Medical Expenses	0	0	0
Travel Expenses	9,691	4,764	5,716
Administrative Expenses	77,849	85,581	91,277
Fiduciary Insurance	4,820	3,941	0
Service Contracts	9,463	8,410	0
Rent Expense	0	1,990	0
Furniture and Equipment	4,934	1,997	12,619
Management Fees	429,726	581,566	740,489
Custodial Fees	56,350	77,794	75,280
Consultant Fees	<u>95,000</u>	<u>100,000</u>	<u>98,497</u>
<b>Sub Total</b>	<b><u>887,862</u></b>	<b><u>1,041,161</u></b>	<b><u>1,197,941</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$18,257,867</u></b>	<b><u>\$15,977,334</u></b>	<b><u>\$15,256,181</u></b>



# Waltham Retirement System

## INVESTMENT INCOME

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2003

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Investment Income Received From:</b>			
Cash	48,000	112,585	\$248,194
Short Term Investments	0	0	0
Fixed Income	1,871,005	2,300,406	2,853,570
Equities	209,711	408,102	458,764
Pooled or Mutual Funds	1,226,907	798,500	371,353
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>3,355,623</u></b>	<b><u>3,619,593</u></b>	<b><u>3,931,881</u></b>
<b>Plus:</b>			
Realized Gains	3,656,973	103	415,320
Unrealized Gains	18,214,193	3,018,543	1,994,764
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>247,036</u>	<u>383,007</u>	<u>471,840</u>
<b>Sub Total</b>	<b><u>22,118,202</u></b>	<b><u>3,401,653</u></b>	<b><u>2,881,924</u></b>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(375,108)	(402,386)	(583,918)
Realized Loss	(1,507,904)	(9,582,680)	(6,187,791)
Unrealized Loss	(476,476)	(8,203,069)	(4,565,290)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(383,007)</u>	<u>(471,840)</u>	<u>(576,355)</u>
<b>Sub Total</b>	<b><u>(2,742,495)</u></b>	<b><u>(18,659,976)</u></b>	<b><u>(11,913,354)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>22,731,329</u></b>	<b><u>(11,638,730)</u></b>	<b><u>(5,099,550)</u></b>
<b>Income Required:</b>			
Annuity Savings Fund	305,956	447,224	578,258
Annuity Reserve Fund	450,174	333,613	313,205
Military Service Fund	77	106	141
Expense Fund	<u>887,862</u>	<u>1,041,161</u>	<u>1,139,966</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>1,644,068</u></b>	<b><u>1,822,103</u></b>	<b><u>2,031,569</u></b>
Net Investment Income	<u>22,731,329</u>	<u>(11,638,730)</u>	<u>(5,099,550)</u>
Less: Total Income Required	<u>1,644,068</u>	<u>1,822,103</u>	<u>2,031,569</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$21,087,261</u></b>	<b><u>(\$13,460,833)</u></b>	<b><u>(\$7,131,119)</u></b>

# Waltham Retirement System

## STATEMENT OF ALLOCATION OF INVESTMENTS OWNED (percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$2,653,932	2.17%	100
Short Term	99,875	0.08%	100
Fixed Income	27,937,708	22.89%	40 - 80
Equities	35,832,100	29.36%	40
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	20,775,470	17.02%	
Pooled International Equity Funds	14,103,193	11.55%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	7,015,050	5.75%	
Pooled International Fixed Income Funds	5,650,064	4.63%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	4,831,643	3.96%	
Pooled Real Estate Funds	3,163,343	2.59%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	<u>0</u>	<u>0.00%</u>	100
<b>GRAND TOTALS</b>	<b><u>\$122,062,378</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2003, the rate of return for the investments of the Waltham Retirement System was 22.10%. For the five-year period ending December 31, 2003, the rate of return for the investments of the Waltham Retirement System averaged 2.60%. For the 19-year period ending December 31, 2003, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Waltham Retirement System was 10.78%.

## Waltham Retirement System

### SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Waltham Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 6, 1987

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

October 13, 1993

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

September 14, 1995

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 12% of the total fixed income portfolio valued at market.

October 16, 1997

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 20% of the total fixed income portfolio valued at market.

September 10, 2002

16.08 The Waltham Retirement Board is authorized to withdraw the funds currently held in its large cap value mandate with Cutler & Company and temporarily place the proceeds in State Street Global Advisors' Russell 1000 Value Index pending the selection of a permanent replacement manager. This temporary authorization extends through December 31, 2002.

April 9, 2001

16.08 1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Waltham Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

## Waltham Retirement System

### SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Waltham request as it applies to 840 CMR 17.04(6).
3. Exemption of the Board and INVESCO from 840 CMR 17.04(7)(a), provided that INVESCO shall disclose to PERAC and the Board in writing, at the time of any investment by a Partnership, any beneficial ownership of the securities involved and/or any related conflict of interest INVESCO expects will impair its ability to render unbiased and objective advice to such Partnership concerning such investment – PERAC is unable to approve the Waltham request as it applies to 840 CMR 17.04(7)(a) at this time. In the event the request is further refined, we would be pleased to once again review its provisions.
4. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Waltham Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.
5. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), 21.01(5), 21.01(6), and 21.01(9) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01 (5) prohibits the purchase of options other than as required to close out option positions; 21.01 (6) prohibits investment in lettered or restricted stock (with the exception of those investments that are venture capital investments, and; 21.01(9) prohibits loans to employees or individuals. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:  
“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”  
PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of

## Waltham Retirement System

### SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

January 18, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Waltham Retirement Board may modify its existing small-cap value mandate with Earnest Partners to include mid-cap value. Following the termination of its existing mid-cap value manager, the Board has decided not to hire a new manager for that mandate but to consolidate its small-cap value and mid-cap value mandates under the management of Earnest Partners. The Board has had a positive relationship with Earnest Partners, with favorable investment results, and is comfortable with the firm's capabilities in mid-cap value. As a result of this modification, Earnest Partners will have greater flexibility in its investment process and the Board will achieve consolidation in its investment structure as well as reduced management expenses.

## Waltham Retirement System

### NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

#### NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Waltham Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

## Waltham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Waltham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Waltham Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 21, 1984

#### Rules & Regulations

- ☐ Any member who desires to establish credit for part-time employment before becoming a member must petition the Board for such credit. All credit must be equivalent to one half of the full time permanent job classification regular hours or days for which the member was employed part time;
- ☐ Any member, who desires to retire under section 56-60 of c. 32 of the M.G.L., must have payroll data evidence to support and verify that such member and public employment prior to July 1, 1939;
- ☐ Purchases of unused sick leave; Excess over 200 days while still employed – Buyback is not subject to retirement deductions or treatment as regular compensation;



## Waltham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

☐ Part-time employees excluded from membership by Board vote: Library pages, recreation department seasonal employees (become eligible after six (6) months); summer playground personnel; winter skating personnel; cemetery department - temporary, seasonal help. Most summer workers become eligible after six (6) months. School transportation, nurses, school cafeteria employees who do not work at least 3 1/2 hours per school day regularly. Library department employees classified as library associates, library department part-time custodians. Members of Boards and commissions paid on a per meeting basis.

☐ Exceptions: Women School Traffic Supervisors

☐ Part-time positions which can pay an annual rate of compensation, clerk recreation department, Board of Assessors (2 Part Time Employees), Cafeteria workers who work regularly at least 3 1/2 hours per school day.

☐ The Retirement Board will allow the following types of employed persons to buy back their time:

☐ Said employees shall include but not be limited to part time permanent with least twenty (20) hours per week, full time temporary laborers-full time intermittent.

(AMENDED MARCH 10, 1997).

January 3, 1989

Creditable Service

School Traffic Supervisors Individuals employed as School Traffic Supervisors in the Police Department of the City of Waltham shall be granted creditable service equal to twelve (12) months for each year of employment if and only if their employment equals that of the total number of hours prescribed by the City of Waltham for that job title or position. Such individual, if at any time, accepts employment in another department of any political subdivision of the Commonwealth of Massachusetts shall be granted a maximum of six (6) months for each year of employment as a School Traffic Supervisor. (RESCINDED APRIL 27, 1989)

April 27, 1989

Membership

Individuals employed as School Traffic Supervisors, School Physicians and School Dentists of the City of Waltham shall not be eligible for membership in the Waltham Retirement System. This regulation shall take effect March 29, 1989, and shall not apply to those individuals whose membership was accepted prior to March 29, 1989.

March 27, 1995

Membership

Acceptation into the Retirement System the job title of "Substitute Service Clerk", which is a full time ten-month position in the School Department.

## Waltham Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 17, 1996

Forms

Approval for continued use of the Waltham Retirement Board's Beneficiary Blank or Change of Beneficiary Blank.

March 10, 1997

Buy backs

A member may not purchase periods of prior non-membership service in the City of Waltham pursuant to G.L. c. 32, s 4(2)(c), if the member had social security deductions for the period in question. This rule is effective December 18, 1996.

# Waltham Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Dennis P. Quinn

Appointed Member: John J. Gorman                      Term Expires: 06/30/05

Elected Member: William R. MacDonald Term Expires: 12/19/05

Elected Member: Thomas J. Magno Term Expires: 02/21/08

**Appointed Member:** Mary W. Rosen                      **Term Expires:** 01/05/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$50,000,000/\$1,000,000
Elected Member:	)	MACRS Policy
Appointed Member:	)	
Staff Employee:	)	

# Waltham Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon as of January 1, 2004.

The actuarial liability for active members was	\$97,825,934
The actuarial liability for retired members was	<u>143,915,682</u>
The total actuarial liability was	<b>241,741,616</b>
System assets as of that date were (actuarial value)	<u>132,381,882</u>
The unfunded actuarial liability was	<b><u>\$109,359,734</u></b>
The ratio of system's assets to total actuarial liability was	54.8%
As of that date the total covered employee payroll was	\$40,324,076

The normal cost for employees on that date was 8.30% of payroll

The normal cost for the employer was 6.10% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.50% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2004	\$132,381,882	\$241,741,616	\$109,359,734	54.8%	\$40,324,076	271.20%
1/1/2003	123,352,105	232,487,351	109,135,246	53.1%	38,317,908	284.82%
1/1/2001	123,997,853	196,626,146	72,628,293	63.1%	38,264,636	189.81%
1/1/2000	127,180,392	183,662,873	56,482,481	69.2%	35,476,982	159.21%

# Waltham Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Superannuation	10	7	4	10	18	15	19		88	14
Ordinary Disability	2	1	0	0	1	1	3		1	1
Accidental Disability	3	3	3	1	1	1	1		2	5
Total Retirements	<b>15</b>	<b>11</b>	<b>7</b>	<b>11</b>	<b>20</b>	<b>17</b>	<b>23</b>	<b>0</b>	<b>91</b>	<b>20</b>
Total Retirees, Beneficiaries and Survivors	792	788	770	766	762	763	763	796	867	836
Total Active Members	770	789	862	869	897	903	897	957	897	916
<b>Pension Payments</b>										
Superannuation	\$5,861,122	\$5,885,472	\$5,996,586	\$5,761,973	\$5,769,019	\$6,170,697	\$6,849,797	\$7,127,378	\$7,915,345	\$10,124,685
Survivor/Beneficiary Payments	257,489	274,284	275,403	280,141	317,476	345,637	418,882	455,714	490,082	511,169
Ordinary Disability	136,034	132,607	121,842	112,013	97,434	99,175	151,251	112,449	159,335	167,411
Accidental Disability	1,886,480	1,920,235	1,983,098	2,053,255	2,078,898	2,313,658	2,312,606	2,353,571	2,631,974	2,684,642
Other	<u>1,631,287</u>	<u>1,666,917</u>	<u>1,874,064</u>	<u>2,089,641</u>	<u>2,022,896</u>	<u>1,860,077</u>	<u>1,876,369</u>	<u>2,028,084</u>	<u>2,006,235</u>	<u>1,941,046</u>
Total Payments for Year	<b><u>\$9,772,412</u></b>	<b><u>\$9,879,515</u></b>	<b><u>\$10,250,993</u></b>	<b><u>\$10,297,023</u></b>	<b><u>\$10,285,723</u></b>	<b><u>\$10,789,245</u></b>	<b><u>\$11,608,905</u></b>	<b><u>\$12,077,197</u></b>	<b><u>\$13,202,971</u></b>	<b><u>\$15,428,953</u></b>

PERAC

Five Middlesex Avenue | Third Floor

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)